Sanitized Copy Approved for Release 2009/11/24 : CIA-RDP85T00875R00160002

 164

Confidential

DIRECTORATE OF INTELLIGENCE

Intelligence Memorandum

Eastern Europe: Trends In Exports To The Industrial West

Confidential

ER IM 69-164
December 1969

Copy No. 45

Sanitized Copy Approved for Release 2009/11/24 : CIA-RDP85T00875R001600020166-6

WARNING

This document contains information affecting the national defense of the United States, within the meaning of Title 18, sections 793 and 794, of the US Code, as amended. Its transmission or revelation of its contents to or receipt by an unauthorized person is prohibited by law.

GROUP 1
Excluded from automatic downgrading and declassification

Sanitized Copy Approved for Release 2009/11/24 : CIA-RDP85T00875R001600020166-6

CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
December 1969

INTELLIGENCE MEMORANDUM

Eastern Europe: Trends In Exports To The Industrial West

Introduction

The countries of the industrial West* account for three-fourths of Eastern Europe's** total Free World trade and more than 90% of its hard currency trade. Penetration of these Western countries' markets and consequent acquisition of their relatively advanced technology have been two of Eastern Europe's most important goals and most difficult problems. The capability of Eastern Europe to continue to expand trade with the industrial West hinges upon the prospect of continued growth in East European exports to those countries. This memorandum examines trends in such exports, inherent problems, and prospects for further growth.

Note: This memorandum was produced solely by CIA. It was prepared by the Office of Economic Research.

* *In this memorandum the industrial West refers to Belgium-Luxembourg, France, West Germany, Italy, the Netherlands, Austria, Denmark, Norway, Sweden, Switzerland, the United Kingdom, Ireland, Canada, the United States, Japan, and Australia. East German exports to West Germany are included. New Zealand is included in total trade figures only; Finland and South Africa are excluded.*

** *Eastern Europe refers to Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Romania.*

Importance to Eastern Europe of Exports to the Industrial West

1. An important factor in the economic development of Eastern Europe since World War II has been the perpetual imbalance between demand for industrial inputs and other commodities and the availability of those products within the Communist Bloc. The East European countries often turn to the industrial West to fill such gaps. Their imports range from products produced on a large scale in the USSR and Eastern Europe to commodities and processes that are in very short supply in Eastern Europe, including many that cannot be duplicated in the Communist world. Thus imports from the industrial West range from foodstuffs, fuels, textile fibers, fertilizers, and spare parts for machinery to third-generation computers, turnkey facilities for producing petrochemicals and many other manufactures, and special materials (steels, nonferrous metal products, and chemicals). Most of Eastern Europe's imports in the past two decades from the industrial West are closer to the former extreme than the latter. But in the past decade most East European purchases on credit from the industrial West, and hence most of Eastern Europe's hard currency indebtedness to those countries, involve commodities at or near the latter end of the spectrum. The degree of Eastern Europe's desire to meet its needs for these products is evidenced by the fact that it has been willing to accept very low returns from exports and to run large trade deficits with the industrial West in order to meet some of those needs.

2. Commodity exports to the industrial West are the principal source of hard currency* with which Eastern Europe can buy desired plant and equipment and other products from the industrial West. The other sources of hard currency, including tourism, income from transportation services, sales of precious metals, and export surpluses with certain less developed countries, make up only a small share of total hard currency income. Commodity exports to the industrial West consist primarily of agricultural products, raw and crude materials, and

---

* *Hard currency in this case refers not only to earnings from exports to multilateral trading partners but also includes the value of sales to those bilateral trading partners in the industrial West -- Switzerland and Austria.*

semimanufactures. They have grown rapidly since 1955, but not nearly so fast as imports from the industrial West, and the East European countries now owe roughly $2.4 billion in hard currency. Thus hard currency is much in demand in Eastern Europe to service existing indebtedness and to expand imports. As the major source of earnings, commodity exports to the industrial West rank high among East European trade priorities.

3. Over the long run, East European exports to the industrial West also have the same advantages as exports in general, including opportunities for further increases in the scale of production, which may permit substantial efficiencies. At the same time, the need to export to the West provides much more of a stimulus to improve product quality than is found in intra-Communist bilateral trade.

Development of Exports to the Industrial West

4. Since 1955, East European exports to the industrial West have increased rapidly, doubling in value from 1955 to 1961 and again by 1968. They rose at an average annual rate of 10.4% during 1956-68: 10.3% during 1956-62, 12.4% during 1963-66, and 6.4% during 1967-68. The rate of growth in 1969 probably will be about 11%, but indications are that it will drop again in the early 1970s. By comparison, East European exports to all non-Communist countries during 1956-68 increased at a rate of 9.1%: 8.4% during 1956-62, 12.4% during 1963-66, and 5.3% from 1966 to 1968. Poland, East Germany,* and Czechoslovakia are the largest exporters by a considerable margin, with about 70% of total exports to the industrial West. Romania and Hungary follow in that order, accounting for about 25% of the total. Bulgarian exports are much smaller -- about one-half those of Hungary -- and account for the remainder. Exports to the industrial West vary widely in relation to total trade among East European countries, and as a share of total exports they range from 10.6% for Bulgaria to over one-fourth for both Poland and Romania.

5. As indicated in the chart, the exports of Poland and Czechoslovakia to the industrial West since the late 1950s have had the most stable growth, with an average rate of growth close to that for

* *Including interzonal trade.*

Eastern Europe as a whole. Since 1962, East German exports have also grown fairly regularly at about the overall average rate. The exports of the southern countries, more influenced by fluctuations in agricultural output, have grown less consistently, especially those of Romania and Bulgaria. These countries depend heavily on cereal crops and fruit and vegetables and are hence among the most vulnerable to weather variations. They have experienced the least stable export growth, with absolute declines in earnings in 1964 and 1968 and rapid increases in between. Exports from Poland, Czechoslovakia, and East Germany have tended to dominate growth trends in East European exports to the industrial West. These countries sell most of the machinery and equipment, manufactures, fuels, and other products either unrelated or only indirectly related to weather fluctuations and short-run variations in demand.

6. Most of Eastern Europe's exports to the industrial West are marketed in Western Europe. In 1968, exports to the European Economic Community (EEC or Common Market) made up 57 percent of the total, and 31 percent went to the European Free Trade Association* (EFTA). Only Poland exported more to EFTA than to the Common Market. Within Western Europe, West Germany ranked as the leading importing country, absorbing almost 30 percent of the total. Italy and the United Kingdom ranked second and third with 13% and 12%, respectively. The only significant trading partners in the industrial West outside of Western Europe are Japan and the United States, and only Poland has significant exports to the United States in 1968 (69% of total US imports from Eastern Europe came from Poland). East European exports to the industrial West, by country, are shown in Table 1.

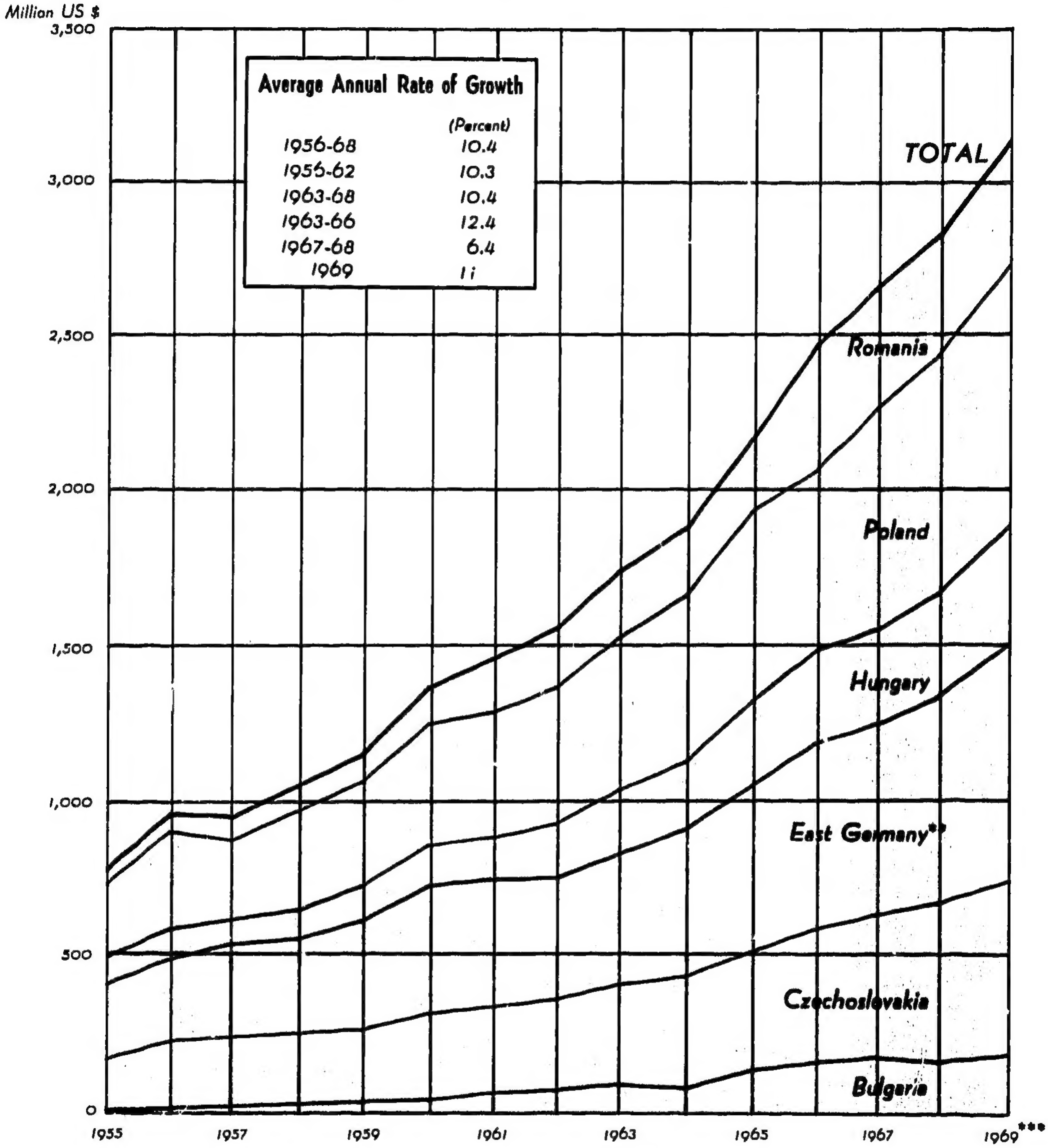
Trends in Major Commodity Exports

Agricultural Exports

7. The East European countries sell more agricultural products to the industrial West than anything else -- this was true in 1955 and will

* *Excluding Portugal.*

East European Exports to the Industrial West*



25X1

*Source: OECD, Trade by Commodities, and US Department of Commerce trade data
**Including interzonal trade
***Estimated

77487 12-69 CIA

Table 1

East European Exports to the Industrial West, by Country a/

Values in Million US $

	1963				1968			
	EEC b/	EFTA c/	Other	Total	EEC b/	EFTA c/	Other	Total
Bulgaria	71.9	21.9	2.9	96.7	119.5	39.8	12.4	171.7
Percent of total	74.4	22.6	3.0	100.0	69.6	23.2	7.2	100.0
Czechoslovakia	157.7	127.4	30.9	316.0	250.9	183.1	74.8	508.8
Percent of total	49.9	40.3	9.8	100.0	49.3	36.0	14.7	100.0
East Germany d/	323.4	88.7	9.7	421.8	495.4	139.9	45.9	681.2
Percent of total	76.7	21.0	2.3	100.0	72.7	20.5	6.7	100.0
Hungary	133.2	81.6	3.5	218.3	195.6	110.4	17.1	323.1
Percent of total	61.0	37.4	1.6	100.0	60.5	34.2	5.3	100.0
Poland	186.2	230.8	53.8	470.8	286.3	299.3	163.9	749.5
Percent of total	39.6	49.0	11.4	100.0	38.2	39.9	21.9	100.0
Romania	162.0	52.2	8.5	222.7	245.6	99.3	24.8	369.7
Percent of total	72.7	23.4	3.8	100.0	66.4	26.9	6.7	100.0
Total	1,034.4	602.6	109.3	1,746.4	1,593.3	871.8	338.9	2,803.9
Percent of total going to industrial West	59.2	34.5	6.3	100.0	56.8	31.1	12.1	100.0

a. *Based on Western partners' data from OECD,* Trade by Commodities, *imports c.i.f. except f.o.b. for Canada and the United States. Although the figures differ somewhat from Communist reporting, the trends in the two sets of data are similar. Because of rounding, components may not add to the totals shown.*
b. *European Common Market.*
c. *European Free Trade Association, excluding Portugal.*
d. *Including interzonal trade.*

still be true for the next few years. In 1968 their agricultural exports were valued at $785 million and represented 28% of total earnings. This figure may be compared with earnings of $573 million in 1963 which accounted for 33 percent of the total. As shown in Table 2, five of the six East European countries have at least one agricultural commodity among their top three exports, as indicated by value. Major agricultural exports in 1968 consisted of live animals and meat products (52%), fruits and vegetables (19%), and cereals -- mainly wheat and corn (10%).*

8. East European meat and livestock exports to the industrial West, largely to Common Market countries, doubled in value from 1963 to 1966, from slightly over $200 million to $419 million, but remained roughly at the 1966 level in 1967-68 in spite of some tonnage increase. Since the early 1960s, East European meat and poultry exports have increased rapidly, in particular as a result of growing West European demand for beef. After 1966, however, sales of meat and livestock leveled off, partly because West European pork and poultry production caught up with demand and partly because EEC tariffs on beef have reduced earnings since mid-1968. Other factors affecting meat exports were an EEC embargo on East European live cattle in the last quarter of 1968, as a result of hoof and mouth disease, and import quotas levied by other West European countries. Sales in 1969 will probably be at about the 1968 level, but beyond that the outlook is unfavorable. Sales will be held down by protectionist policies in the EEC and quota restrictions in other West European countries as well as rising East European domestic demand for meat. Sales and profits are likely to be affected increasingly by competition with third country exporters. The Japanese market for livestock products may, in the future, provide some offset to lagging sales in Western Europe -- how much will depend upon Japanese export success in Eastern Europe and the ability of Eastern Europe to compete with Japan's traditional Western suppliers.

* *The share of cereals in the total in 1968 was atypically low because of a severe drought in the southern countries.*

CONFIDENTIAL

- 7 -

Table 2

Major East European Exports to the Industrial West, by Value

	Thousand US $				Average Annual Rate of Growth 1964-68 (Percent)
	1963	1966	1967	1968	
Bulgaria					
Fruits and vegetables	20,759	26,327	29,473	31,295	8.6
Tobacco and tobacco manufactures	20,010	22,585	18,99[illegible]	16,738	- 3.5
Nonferrous metals	6,352	22,450	15,966	20,005	25.8
Hungary					
Live animals and meat products	64,653	103,686	102,059	96,881	8.4
Fruits and vegetables	21,983	25,082	28,642	24,816	2.5
Textiles	9,206	14,093	15,164	18,270	14.7
Romania					
Meat and live animals	9,186	39,042	40,577	35,547	31.1
Wood and timber	57,382	67,293	60,528	58,445	0.4
Refined petroleum products	45,078	60,669	55,257	61,966	6.6
Poland					
Live animals and meat products	118,899	176,211	179,989	168,730	7.3
Coal and coal products	79,793	84,285	99,679	131,319	10.5
Iron and steel	14,055	24,881	43,712	55,818	31.8
Czechoslovakia					
Coal and coal products	32,971	38,807	45,132	49,100	8.3
Wood and wood products	37,659	41,091	39,112	37,297	- 0.2
Iron and steel	14,943	36,715	46,964	50,137	27.4
East Germany					
Iron and steel	15,609	25,944	33,869	50,394	26.4
Meat and live animals	9,907	53,148	60,470	48,376	37.3
Clothing and footwear	25,730	42,288	41,217	52,083	15.1

Sources: ... *data*

CONFIDENTIAL

9. Poland and Hungary are the principal exporters of meat and live animals, with 65% of the total in 1968. Although their exports have grown since 1963, their share of this large market has declined rapidly, dropping from 86% in 1963, as the other East European countries moved to take advantage of growing West European (and particularly Italian) demand for beef cattle. Bulgarian and Romanian exports grew rapidly after 1963, peaked in 1966 and 1967, respectively, and have declined somewhat since then. The same is true for East Germany, the peak year being 1967, followed by a decline of $12 million in 1968. In spite of meat shortages and large meat imports over the past few years, Czechoslovakia also has pushed meat and livestock exports from a level of about $12 million in 1966 to over $35 million in 1968.

10. East European exports of cereals and fruits and vegetables to the industrial West represented 29 percent of total agricultural exports in 1968. Poland, East Germany, and Romania together had the largest share of this market, selling 59% of total agricultural exports in 1968, but their share is down from 1967. Romanian corn and wheat exports dropped to $28 million, compared with $65 million in 1967, and East German grain exports dropped to $27 million, compared with $40 million in 1967. Earnings from fruit and vegetable exports have been growing slowly and are fairly stable, but earnings from cereal exports fluctuate widely -- as much as $50 million to $75 million from year to year. Because of the EEC common agricultural policy and quota restrictions in most West European agricultural markets, and also because of present and very likely future surpluses of many agricultural commodities in Western Europe (including dairy products, sugar, and soft wheat), the prospects for future growth in East European agricultural exports to the industrial West are generally unfavorable.

Crude Materials and Fuels

Poland and Romania, the two countries best endowed with reserves of timber and mineral fuels, supply almost 60 percent of exports.

12. Within the crude materials and fuels product group, the principal products exported are coal and coal products, timber and semiprocessed wood products, and refined petroleum products. Crude materials in 1968 were sold primarily to the Common Market (68%), with most of the rest going to EFTA (29%). Fuels are more evenly divided between the two, with EFTA receiving 42% and the EEC 48%. Poland alone accounted for 47% of the East European exports of crude materials and fuels to EFTA.

Chemicals*

13. Chemical exports provide a potentially important source of hard currency earnings for Eastern Europe. In 1963 they were valued at $100 million and represented 5.7% of total exports. By 1968 their value had increased to $183 million, or 6.5% of total exports. Thus the value of chemical exports has grown slightly faster than total exports to those countries. The East European countries have, in the past few years, imported hundreds of millions of dollars worth of chemical plant and equipment which in most cases provides capacity exceeding even future domestic requirements. This brings about a need to expand export markets, including those within the industrial West, particularly for various chemical elements and petrochemical compounds.

14. In 1963 the leading exporters of chemicals were East Germany, Czechoslovakia, and Poland. While they remained the leaders, their share of the market declined from 87% in 1963 to 79% in 1968. This trend will continue, as Bulgaria and Romania will try to expand exports following the completion of several large imported chemical plants. The Common Market and EFTA together absorbed 92% of

total chemical exports, with sales of $97 million and $72 million, respectively. West Germany in 1968 was the leading importer, with 28%, followed by the United Kingdom, with 14%.

Intermediate Manufactures

15. Exports of intermediate manufactures (excluding chemicals), ranking second only to agricultural products, were valued at $560 million in 1968, or 20% of the total. Exports of intermediate manufactures follow a familiar pattern. The principal sales successes are products which involve little processing and those in which uniform and sufficient quality is easily achieved, such as bulk textiles, unwrought nonferrous metals, and ferrous metals at a low stage of processing. For example, of iron and steel exports worth $191 million in 1968, 45% consisted of pig iron, ingots, and other primary forms. Most of the other steel exports, like most East European steel production, are of heavy steel plate and shapes and have only limited appeal to Western steel consumers. Iron and steel, nonferrous metals, and textiles made up 72% of total exports of intermediate manufactures to the industrial West.

16. East Germany, Czechoslovakia, and Poland in 1968 were the major exporters of intermediate manufactures by a wide margin, 76%, consisting primarily of iron and steel (37%), textiles (21%), nonmetallic minerals (12%), and nonferrous metals (13%). They were followed by Romania, whose primary exports were nonferrous metals and pig iron. Japan provided a pig iron market of $53 million for Eastern Europe in 1968 (one-fourth of total Japanese pig iron imports), exploited principally by Poland and East Germany. Although Japan is expanding pig iron production facilities, thereby reducing the need for imports, its interest in exploiting market opportunities in Eastern Europe may lead the Japanese to continue East European pig iron imports, which represent roughly one-half of total East European exports to Japan. Other product exports are fairly evenly spread among Western Europe, with the Common Market receiving a somewhat larger share. A unique phenomenon has been the development of Poland's exports of intermediate manufactures to the United States, which are now considerably larger than those to the entire Common Market and include substantial amounts of metals and textile manufactures.

Machinery and Equipment

17. East European machinery and equipment exports to the industrial West are relatively small, primarily because most East European machinery is not competitive on Western markets. Almost all of Eastern Europe's output of machinery and equipment is exported to the Soviet Union and other Communist countries or is used domestically. About one-fifth is channeled to the West, but less than half of that to the industrial West -- about 8 percent of total exports to this area in 1968. As in the case of intermediate manufactures, the most successful have been unsophisticated products which require straightforward applications of technology and engineering techniques and which are relatively standardized, such as metalworking machine tools and textile machinery. Czechoslovakia and East Germany have had some success in exporting more complex products, including passenger cars, principally by discounting prices to make the products competitive with higher quality Western products. Nonetheless, it generally has proved prohibitive for the East European countries to attempt to expand exports of relatively more sophisticated yet second-rate machinery to the industrial West. Sales must often be made at a loss and usually to thin, undependable markets. Eastern Europe's comparative advantage has been at the lower end of the technical scale, where domestic output is large and quality is fairly uniform.

18. Exports of machinery and equipment have more than doubled since 1963. Growth has been quite consistent and -- for a time at least -- is likely to remain rapid, amounting to $221 million in 1968. Over three-fourths of all machinery and equipment sold to the industrial West is exported by Czechoslovakia and East Germany, whose sales increased from $83 million in 1963 to $169 million in 1968. Those of Romania and Bulgaria increased from less than $1 million each to a combined figure of almost $14 million over the same period. Combined totals of Polish and Hungarian exports increased from $16 million in 1963 to $39 million in 1968.

Consumer and Other Finished Manufactures

19. East European exports to the industrial West of finished manufactures other than machinery reached the $136 million mark by 1963 and increased in 1968 to $303 million, an average annual rate of growth of 17%. Like the other product groupings, growth was rapid up to the mid-1960s (20% per year from 1964 to 1966) and much slower afterwards (14% from 1966 through 1968). Quota limitations, in particular on textile products, account for at least part of the slowdown in growth. Although quotas on many products are raised periodically and occasionally are dropped for others, in general, quota limitations will tend to slow down the expansion of East European consumer goods exports to the industrial West in the future. Clothing and footwear are the most important of all finished manufactures exported for all countries -- as a share of the total they increased from 40% in 1963 to 44% in 1968. Furniture is an important export for most of these countries. Other manufactures exported in significant amounts include travel goods, toys and games, and scientific measuring and control devices.

20. In exporting consumer goods and other finished manufactures as in exporting machinery, quality and consumer appeal are more important to the market than is the case with many other less highly processed exports. Appropriately, Czechoslovakia and East Germany, with the most sophisticated mix of consumer goods, are the two major East European exporters; in 1968 they supplied 65% ($197 million) of the total going to the industrial West. Exports of Poland and Hungary were next, at about $37 million each, followed by Romania at $24 million and Bulgaria far behind ($7 million).

21. Primary importers of East European consumer goods and the like are the United Kingdom, West Germany, and Sweden in that order, with a combined share of 59%. In 1968, EFTA absorbed $94 million of these products (31%) and the EEC $171 million (56%).

East European Exports to the Industrial West, by Country

Bulgaria

22. Bulgaria's exports to the industrial West increased from $16 million in 1955 to $172 million

in 1968. Most of this growth can be attributed to increased output and exports of agricultural products, and most of the wide fluctuations in Bulgaria's export growth can be linked to variations in domestic agricultural output. The Bulgarians have had some success in diversifying commodity exports to the industrial West, but less than the other East European countries that depend heavily on agricultural exports -- Romania, Hungary, and Poland. Since 1966, erratic domestic agricultural production, the relative inferiority of Bulgaria's general product mix, and sales fluctuations on particularly thin markets have all contributed to export stagnation. In 1969, because of improved agricultural availabilities together with moderate increases in sales of industrial products, Bulgaria's exports to the industrial West were recovering and are estimated to have been approximately 8%-10% above the 1968 total.

23. Starting from a low absolute level of exports in the mid-1950s, Bulgaria was able to increase exports to the industrial West at an average annual rate of 30% from 1955 to 1960. From 1960 to 1964 the average rate of growth declined sharply, to 11%, as agricultural exports reached a plateau. Other production capacity had only begun to contribute to exports to the industrial West. From 1964 to 1966, expanding exports of semimanufactures and crude chemicals plus a resurgence of agricultural exports -- particularly meat, live animals, and fruit and vegetables -- brought an average annual increase in exports of 37%. From 1966 to 1968, agricultural exports to the industrial West declined and growth of total exports averaged only 1%.

24. Agricultural products are Bulgaria's chief exports and represent a larger share of total exports to the industrial West than in any other East European country -- 52.5%, as shown in the tabulation for 1968, below. However, there has been a steady decline in agriculture's share of these exports since the early 1960s, when the figure was over 60%.

25. Other exports consist mainly of crude materials, primarily of agricultural origin (17%), and intermediate manufactures, with the same share. In 1968 one product subgrouping -- oilseeds, oil nuts, and oil kernels -- made up 62% of total crude materials exports. Likewise, nonferrous metals

1968	Million US $	Percent of Total
Food, beverages, and tobacco	90.2	52.5
Crude materials and fuels	29.3	17.1
Chemicals	7.0	4.1
Intermediate manufactures	29.1	16.9
Machinery and equipment	4.9	2.9
Consumer and other finished manufactures	6.7	3.9
Other	4.5	2.6
Total	*171.7*	*100.0*

Sources: OECD, Trade by Commodities, *1968, and US Department of Commerce trade data.*

represented 69% of exports of intermediate manufactures. Combined exports of chemicals, intermediate manufactures, and machinery and equipment were only 24% of total shipments to the West, with 61% going to the EEC and 33% to EFTA. With many plants still under construction, practically none of Bulgaria's large investment in imports of Western chemical plant and equipment has as yet paid off in chemical exports to the industrial West -- perfume products still rank high as a share of the small total value.

26. Most of the increase in iron and steel exports from 1963 (less than $1 million) to 1966 ($14 million) represented increased sales of pig iron to Japan. When this market was lost, at least temporarily, in 1968, exports of iron and steel declined by almost $8 million. Although machinery and equipment exports increased sevenfold from 1963 to 1968, they remained an insignificant part (3%) of total exports to the industrial West. Bulgaria's exports of consumer and other finished manufactures have grown almost as fast as those of machinery and

equipment, increasing sixfold since 1963, with sales valued at $6.7 million in 1968. Clothing and footwear made up almost four-fifths of the total, a much higher share than for the other East European countries. Principal markets for the latter have been found in West Germany, Belgium, the Netherlands, and the United Kingdom.

27. Although Bulgaria's agricultural exports will continue to dominate trends in growth of exports to the industrial West through the mid-1970s, the share of agricultural products in total exports will continue to fall (declining to perhaps 40% by 1975), and Bulgaria's ability to maintain what the regime would consider a satisfactory average growth (7%-10%) will depend more and more heavily upon expanding exports of both intermediate and finished manufactures, crude inorganic chemicals, and petrochemical products and less upon agricultural exports. Continuation of Bulgaria's rapid trade increases with the Soviet Union will tend to reduce further the already slim probability of rapid and sustained expansion of Bulgarian exports to the industrial West. The Bulgarians lack sufficient uncommitted resources, as well as incentive, to overcome the difficulties encountered in trading on advanced Western markets -- that is, bridging the quality gap in manufactures and machinery, marketing, and so on.

Czechoslovakia

28. In 1968, Czechoslovakia's exports to the industrial West were $509 million and ranked third behind those of Poland and East Germany. They have increased substantially since the mid-1950s, beginning with a 31% increase in 1956, and a decline to the 1956 level in 1958, followed by a 9.6% average annual rate of growth from 1958 to 1968. Although Czech exports to the industrial West are much less diversified than exports to other Communist countries, they are, nevertheless, more diversified than those of other East European countries to the West -- the Czechs' shares of exports of intermediate manufactures and machinery and equipment were higher than those of any other East European country.

29. From 1963 to 1968, Czech exports to the industrial West grew steadily at a rate of 10%. Export growth has come from all product groups but particularly from exports of chemicals and other

intermediate manufactures and of machinery and equipment. Chemical exports almost doubled after 1963, growing at an average annual rate of 13%, with a value of $32 million in 1968. The largest absolute increase was in exports of other intermediate manufactures, which rose from $66 million in 1963 to $137 million in 1968. One-half of the increase can be attributed to iron and steel exports, which grew at a rate of 27%, reaching a value of $50 million in 1968. Unlike Poland and East Germany, the other two leading iron and steel exporters, Czechoslovakia sells only a small amount of pig iron to the industrial West. Its exports indeed include the most diversified mix of steel products (including cold-rolled products) sold by any East European country in the industrial West. Sales of glass and glassware, a longtime specialty of Czech light industry, amounted to over $20 million in 1968 but had risen only slightly since 1963. Exports of consumer and other finished manufactures increased rapidly up until the mid-1960s and more slowly since then. Canada, the United States, West Germany, and Sweden together absorbed over 61% of the total in 1968. Clothing and footwear made up over 42% of the total in 1968, compared with 31% in 1963.

30. Although machine tools and motor vehicles account for the largest share of Czech machinery and equipment exports to the industrial West (41% in 1968), sales of these products have grown very slowly since 1963 and have declined as a share of total machinery and equipment exports from a high of 61% in 1963. Exports of textile machinery and equipment (particularly to the United Kingdom) and tractors (especially to France) grew at an average annual rate of 33%, reaching $18 million in 1968.

31. Czech exports of food and beverages to the industrial West were valued at $75 million in 1968 (see the tabulation which follows) -- an increase of only $10 million since 1963. A drop in earnings from sugar exports from $29 million in 1963 to less than $7 million in 1968, due largely to declines in price and demand, has been slightly more than offset since 1966 by increased earnings from sales of live animals and meat, largely to Italy.

32. Czech exports to the industrial West in 1969 are increasing at about the same rate as the average increase achieved during 1964-68. This

1968	Million US $	Percent of Total
Food, beverages, and tobacco	75.1	14.8
Crude materials and fuels	117.1	23.0
Chemicals	31.8	6.2
Intermediate manufactures	136.7	26.9
Machinery and equipment	74.8	14.7
Consumer and other finished manufactures	64.8	12.7
Other	8.5	1.7
Total	*508.8*	*100.0*

Sources: OECD, Trade by Commodities, *1968, and US Department of Commerce trade data.*

would amount to an increase of roughly 10%, slightly higher than the annual average since 1966. Increases in exports to West Germany, France, and Austria are among the most notable. Future growth in these exports will be hindered by the fact that exports to the Soviet Union and the rest of Eastern Europe of many heavy industrial commodities not competitive in the West have become a dominant and rather permanent feature of Czech foreign trade. Thus almost all sales to the industrial West in the next several years will continue to represent merely spinoff from output oriented to the Communist market.

East Germany

33. East Germany's trade with West Germany tends to overshadow East German exports to other countries in the industrial West.* After the Berlin Agreement of 1951 (the original interzonal trade charter), East German exports to West Germany increased rapidly throughout the 1950s at an average annual rate of growth of roughly 26%. Exports to the other countries of the

* *Including interzonal trade.*

industrial West practically stagnated from 1955 to 1959, increasing at a rate of only 4%.

34. After the threat by West Germany to cut off trade in the early 1960s over the issue of East German political recognition, the East Germans began a conscious effort to reduce their dependence on interzonal trade. From 1961 to 1968, East German interzonal exports increased much more slowly, remaining below the 1960 level until 1965 and yielding an average annual growth rate after 1965 of only 4%. Meanwhile, in the period 1964-68 East German exports to the rest of the industrial West increased at a rate of about 14% per year. As with the other East European countries, total East German exports to the industrial West expanded more rapidly during 1964-66 (12% per year) than from 1966 to 1968 (7% per year). Including interzonal exports in East Germany's total exports to the industrial West not only doubles the value (from $321 million to $681 million in 1968) but also decreases the diversity. The share of agricultural exports in the total for 1968 doubles, from 8% to 16%; the share of crude materials and fuels essentially remains the same; the share of chemicals drops from 16% to 10%; intermediate manufactures retain the same share; the share of machinery and equipment declines from 19% to 14%; and the share of consumer goods exports rises from 14% to 19%.

35. Since the early 1960s, East German export growth has been primarily in machinery and equipment, metal semimanufactures, and consumer goods. Sales of iron and steel (mostly pig iron) and nonferrous metals have increased most rapidly, principally to Japan and the United Kingdom, and tripled in value from 1963 through 1968. In 1968 these exports represented 31 percent of exports of intermediate manufactures, compared with 23 percent in 1963. Machinery and equipment exports more than doubled in value after 1963, reaching $94 million in 1968 (as shown below), and consist principally of nonelectrical machinery and transport equipment. The most dramatic sales successes have been in France and the Scandinavian countries. French imports of East German machinery and equipment equaled 44% of total imports from that country and include office machines, electrical wiring products, bookbinding equipment, agricultural machinery, and other products.

36. Chemical exports increased modestly up until 1966 but have grown only slightly since then. Exports of various chemical elements and compounds have found a ready market in the industrial West but, due to increasing domestic needs, fertilizer exports (all potassic) have not grown since 1963 and comprised only 21% of chemical exports in 1968 -- compared with 35% in 1963. East German exports of consumer goods and other finished manufactures are by far the largest among the East European countries, with the best sales success in clothing and footwear, scientific and control instruments, and furniture. This product group made up 19% of total East German exports to the industrial West in 1968 and may very well have the brightest future after more than doubling in value in the past five years. Figures for 1968 are as follows:

1968	Million US $	Percent of Total
Food, beverages, and tobacco	108.0	15.9
Crude materials and fuels	101.1	14.8
Chemicals	69.3	10.2
Intermediate manufactures	163.2	24.0
Machinery and equipment	93.8	13.8
Consumer and other finished manufactures	132.6	19.5
Other	13.2	1.8
Total a/	*681.2*	*100.0*

a. Including interzonal trade.

Sources: OECD, Trade by Commodities, *1968, and US Department of Commerce trade data.*

37. Like the other East European countries, East Germany has taken advantage of West European demand for beef to earn hard currency. The East Germans have imported low-priced beef for domestic consumption and exported domestic live animals to Italy and meat to France and West Germany. However, sales to all of these markets, as well as total sales of meat and live animals, declined somewhat in 1968 as a result of worsening market conditions in Western Europe.

38. In 1969, exports to the industrial West increased at a much faster rate than in the previous two years, particularly to West Germany, and may have attained a level of perhaps $760-$770 million. Perhaps more than any other East European country, East Germany must rely upon growth in exports of intermediate and consumer manufactures and machinery and equipment to achieve growth in exports to the industrial West in the future. The rate of growth through 1975 could average 7%-8%, but this will depend, as in the past, upon the future of East German interzonal exports and hence upon the political factors in East-West German trade, which are so strong that it is difficult to reach conclusions about trends based on economic factors.

Hungary

39. In the period 1955-68, Hungary's exports to the industrial West increased at an annual rate of 11%. Since 1957 the Kadar regime has encouraged trade expansion with the industrial West, but much of the increase was tied to growth in agricultural exports until the early 1960s. It has only been since 1961, with an increasingly diversified product mix and expanding export markets, that much of the growth has occurred. The Hungarians have been working to eliminate a chronic deficit in total trade while at the same time cutting back unprofitable exports, particularly to the West. This has coincided with and is partially the result of the introduction, in January 1968, of Hungary's highly (but quietly) touted economic reform program.

40. Exports to the industrial West increased at a rate of 9% from 1955 to 1961 and 16% from 1961 to 1966, reaching a value of $301 million in 1966. A general decline in export prices in Western Europe together with sales difficulties in that area led

to a standstill in exports from 1966 to 1968, which grew at a rate of only 4% -- except for Bulgaria, the slowest growth in Eastern Europe.

41. Agricultural products were over 50% of the value of Hungary's exports to the industrial West until 1967 and accounted for one-half of the increase from the early 1960s to 1966. Almost the entire growth in exports of food products since 1963 has been in live animals and meat products. The leveling off of these exports since 1966 has contributed most to the recent low export growth rate. Earnings from these exports increased to $104 million by 1966 but have declined slightly since then. Almost one-half of Hungary's meat and live animal exports to the industrial West are sold in Italy and that country's meat import restrictions have been a significant factor in Hungary's failure to expand earnings. Hungary has slaughtered down its beef herds in the past few years, particularly in the first half of 1968, partly because of a bad harvest but primarily because of a good market for beef, at least up until July 1968, when higher tariffs went into effect in Western Europe. The composition of Hungarian exports to the industrial West in 1968 was as follows:

1968	Million US $	Percent of Total
Food, beverages, and tobacco	143.2	44.3
Crude materials and fuels	50.6	15.7
Chemicals	14.3	4.4
Intermediate manufactures	51.7	16.0
Machinery and equipment	16.2	5.0
Consumer and other finished manufactures	37.3	11.5
Other	9.8	3.0
Total	*323.1*	*100.0*

Sources: OECD, Trade by Commodities, *1968, and US Department of Commerce trade data.*

42. Sales of intermediate manufactures have been the second most dynamic element in Hungary's exports to the industrial West. Annual exports of textiles and nonferrous metals together increased in value from $10 million in 1963 to $29 million in 1968, when they represented 56% of exports of intermediate manufactures. Although Hungary's textile industry has been somewhat neglected in terms of investment priorities, it still ranks as the most important branch of light industry, and exports of clothing and household textiles, including cotton textiles sold to the United States, made up 12% of all exports in 1967. The planned increase in total exports of products of light industry to the entire West in 1969 was 6%.

43. Practically all hard currency earnings from the export of nonferrous metals come from sales of aluminum. In fact, Hungarian plans for the aluminum industry -- huge injections of investment, large Soviet credits, and integration with Soviet aluminum capacity with an eye to exporting rolled products to the West -- should shortly make it the largest foreign exchange earner within the manufacturing sector. Machinery and equipment exports to the industrial West, although still small, have doubled since 1963 -- almost entirely because of increased sales of electrical machinery and transport equipment -- and had a value equal to 5% of total exports to those countries in 1968. Hungary's exports of finished manufactures amounted to 12% of its total exports to the industrial West in 1968. Clothing and footwear and furniture together accounted for 66% of these.

44. Although exports of live animals and beef apparently played an important part in the rapid growth of total exports to Western Europe in the first half of 1969, meat shortages at home, as well as reduced herds, will make it difficult to expand exports of these products significantly over the next few years. In order to attain even an average growth of 6%-7% in exports to the industrial West through 1975, Hungary must have good grain harvests and increased sales of intermediate manufactures -- which, hopefully, will result from increased competitiveness and producer incentives envisaged in current reforms.

Poland

45. Poland, with the largest industrial output and by far the largest agricultural production in Eastern Europe, also exports the most to the industrial West. Such exports increased at a rate of 9% from 1958 to 1968 and reached about $750 million in 1968, as indicated in the tabulation for 1968 given below.

1968	Million US $	Percent of Total
Food, beverages, and tobacco	263.2	35.1
Crude materials and fuels	249.8	33.3
Chemicals	43.7	5.8
Intermediate manufactures	123.1	16.4
Machinery and equipment	22.4	3.0
Consumer and other finished manufactures	37.5	5.0
Other	9.8	1.4
Total	*749.5*	*100.0*

Sources: OECD, Trade by Commodities, *1968, and US Department of Commerce trade data.*

Since 1966 they have slowed down somewhat, and the increase in 1968 was only 6% above 1967. This figure may be compared with the growth of Polish exports to other CEMA members, 17% in 1968, and the growth of total exports, 13%.

46. Since the early 1960s the increase in exports to the industrial West has come primarily from three product groups: crude materials, coal and coal products, and intermediate manufactures. Crude materials exports increased by $45 million from 1963 to 1968 -- by $21 million in 1968 alone. Coal

exports to all countries reached a record 26 million tons in 1968, with exports to the industrial West worth $131 million. The latter is an increase of 32% over 1967 and 56% over 1966. The demand for coal for industrial use in Western Europe and Japan is fairly strong and rather permanent, and some further increase in supply in the next few years could lead to Polish earnings in the industrial West amounting to at least $200 million by the mid-1970s.

47. The rapid growth in exports of intermediate manufactures can be attributed largely to increased sales of iron and steel and nonferrous metals, which together have increased by $58 million since 1963 and made up 63% of total manufactures exports in 1968. So far as exports to the industrial West are concerned, Poland now ranks as the leading exporter of iron and steel in Eastern Europe, with $56 million in sales in 1968. Since Polish steel exports are fairly well diversified -- although leaning toward heavy products -- they have some potential for further increases in a wide variety of steel exports. Polish exports of finished manufactures more than doubled from 1963 to 1968, with most of the growth coming from increased sales of clothing and footwear, and furniture.

48. Chemical exports, which had increased from $23 million in 1963 to over $46 million in 1967, declined slightly in 1968. But earnings from chemical exports to the West as a whole are scheduled to grow substantially in the next several years as Poland improves its position among the world's leading exporters of sulfur. Hard currency earnings from sulfur alone are expected to reach $50-$75 million annually by 1975, from a level of roughly $14 million in 1968.

49. The leveling off of exports since the mid-1960s has resulted largely from a drop in agricultural exports. In 1968, agricultural exports declined by $20 million, including an $11 million drop in the value of live animals and meat products exports -- a decline attributable mainly to a drop in the value of sales to the United States and the United Kingdom. Fruit and vegetable exports declined by $5 million as well.

50. Through 1975 the annual growth of Polish exports to the industrial West will probably average 6%-7%, from a base of three-quarters of a billion dollars in 1968. In 1969 they probably increased

about 8%-10% and thus should have exceeded $800 million. During 1966-68, when the growth in agricultural and crude materials exports leveled off, most of the 8% average growth in total exports to the industrial West resulted from increased exports of fuels and intermediate manufactures, and it is exports of these commodities, as well as of sulfur, which will carry the growth in total Polish exports to the industrial West through the mid-1970s.

Romania

51. Since Romania's decision in 1959 to increase trade with the West -- at least partly at the expense of trade with other Communist countries -- exports to the industrial West have increased very fast. From 1955 to 1959 they increased at an average annual rate of only 8%, whereas from 1959 to 1967 the increase was at an annual rate of 23%. In 1968, after a 25% increase in 1967, Romanian exports to the industrial West fell by 5%. These trends in the 1960s largely were dominated by changes in agricultural exports. The decline in 1968 reflected a $43 million drop in earnings from corn and wheat sales, but other exports increased fast enough to offset a large part of the losses.

52. Although Romania and Bulgaria sell many of the same commodities to the industrial West, the Romanians sell more of almost everything, even though in many cases the Romanians started at a lower level five years ago -- for example, each sold less than $1 million worth of machinery and equipment to the industrial West in 1963 -- yet in 1968 Romanian sales were $9 million compared with less than $5 million for Bulgaria. The main difference is in Romania's sales of timber and timber products and exports of refined petroleum products from its large petroleum industry. Together, these items contributed earnings of $120 million in 1968 -- 33% of total earnings. Romanian exports to the industrial West in 1968 are shown in the tabulation on the following page.

53. Although exports of timber and petroleum products still are of crucial importance, they have contributed surprisingly little (12%) to the increase in total exports since the early 1960s and declined as a share of total exports from 46% in 1963 to 33% in 1968. The decline is due, first,

1968	Million US $	Percent of Total
Food, beverages, and tobacco	104.9	28.4
Crude materials and fuels	143.0	38.7
Chemicals	16.7	4.5
Intermediate manufactures	55.7	15.1
Machinery and equipment	8.9	2.4
Consumer and other finished manufactures	24.5	6.6
Other	16.0	4.3
Total	*369.7*	*100.0*

Sources: OECD, Trade by Commodities, *1968, and US Department of Commerce trade data.*

to rising domestic requirements of refined petroleum products and unfavorable Western market prices (especially for diesel and fuel oils), and second, to a Romanian drive to reduce the rate of forest depletion. Other products accounted for most of the increase in Romania's export earnings in the industrial West since the early 1960s -- especially intermediate and finished manufactures and foodstuffs. Sales of intermediate manufactures tripled from 1963 to 1968, including a tenfold increase in nonferrous metals exports, which were worth over $21 million in 1968. Together with iron and steel exports of $17 million (mostly pig iron), metals in 1968 accounted for 68% of exports of intermediate manufactures. Exports of wood manufactures, including furniture (which the Romanians are trying to expand while reducing exports of unprocessed wood in order to slow down forest depletion) grew to over $14 million, from $3 million in 1963. Exports of consumer and other finished manufactures have grown very fast (about 48% per year) since the early 1960s. Most of these sales consist of clothing and footwear (55%) and furniture (31%).

Exports of chemicals and machinery and equipment have both grown rapidly, attaining a combined value of $26 million in 1968, compared with less than $4 million five years before.

54. Romania's exports to the industrial West will become increasingly diversified in the next few years as sales of intermediate and consumer manufactures, machinery, and chemicals continue to grow more rapidly than exports of agricultural products, crude materials, and fuels. However, Romania's sales of grain and other agricultural products will average at least 30% of total exports through 1975 and will continue to be of great importance in determining Romania's ability to go on buying large quantities of machinery and equipment in the West.

Prospects

55. East European exports to the industrial West will probably grow at a rate of 7%-8% annually through 1975. Imports will continue to run larger than exports. The trade deficit will average considerably less than in 1963-68, however, mainly because of the deterioration of the financial positions of Bulgaria and Romania, which in the past few years have contributed most to Eastern Europe's sizable trade deficits. Balance-of-payments considerations will continue to limit East European imports on credit from the industrial West, at least until the early 1970s.

56. In a shift from the trend in 1956-66, East European intra-CEMA exports will probably increase at a slightly faster rate of growth than exports to the industrial West. The East European countries will go on selling their machinery and equipment to each other and to the Soviet Union and some of their agricultural products, crude materials and fuels, and semimanufactures to the West. This is a fairly stable situation and tends to be self-reinforcing, given the continuation of East European needs and desires for Western goods.

57. Exports of agricultural products will continue to be Eastern Europe's major source of foreign exchange earnings from the industrial West, but as a share of total exports they will continue to decline. By the early 1970s the value of exports of intermediate manufactures should represent an almost equal share of total exports. Demand factors will play a

larger role than in the past decade in further expansion of agricultural exports, particularly to Western Europe, where a continuation of Common Market policies favoring agricultural self-sufficiency will in general act to hold down demand for agricultural imports. Also, Eastern Europe must contend with future rising domestic demand for products exported, such as meat. Nevertheless, annual weather variations will continue to be the most important factor in determining East European agricultural export availabilities.

58. Exports of chemicals, ferrous and nonferrous metals, and consumer goods seem to have the most potential in the next few years. Considerable capacity (much of it from the West) for moderately sophisticated output, particularly of petrochemicals, is now in the latter stages of construction, especially in Romania, Bulgaria, and Poland. Machinery and equipment exports can also be expected to continue to increase, particularly those of East Germany to Western Europe, but they are not likely to rise substantially as a share of total East European exports to the industrial West.

59. The long-run capability of Eastern Europe to expand exports of industrial products other than semimanufactures will depend to a considerable degree upon the rate of assimilation of advanced Western technology, as embodied in imports of Western capital goods. Eastern Europe has been importing fairly large amounts of Western investment goods since the early 1960s, but the effect of these purchases still is inhibited by domestic construction bottlenecks, severe shortages of skilled labor, and large trade deficits with the West, requiring periodic sharp reductions in imports. The slow rate of technological assimilation, set against the likelihood of a fairly rapid rate of Western technological innovation in the 1970s, could reduce the competitiveness of East European goods on Western markets. Thus, assuming a minimum of Western-oriented innovations within Eastern Europe, the so-called technology gap, evident in East-West product comparisons, could widen in the 1970s. It would thus become even harder for the East Europeans to upgrade their export mix by selling a larger share of finished goods.

Conclusions

60. Commodity exports to the industrial West are Eastern Europe's primary source of hard currency foreign exchange earnings, which are used to import (a) additional amounts of commodities that are produced on a large scale in the USSR and Eastern Europe, and (b) commodities such as equipment embodying advanced technology that are produced only in the West in the qualities and amounts desired -- in other words, commodities that represent uniquely critical inputs into Eastern Europe's industrial production and capital stock. Large deficits in the trade of most East European countries with the industrial West and their growing hard currency indebtedness since the early 1960s indicate their desire for both kinds of commodities.

61. After a takeoff in the mid-1950s, East European exports to the industrial West attained fairly rapid and sustained growth -- more rapid than growth in East Europe's total exports as well as exports to the whole Free World and within CEMA. More recently, since the mid-1960s, exports to the industrial West have slowed down substantially. Since the late 1950s the three northern countries (East Germany, Poland, and Czechoslovakia) have dominated the trend in exports, while exports from the three southern countries (Bulgaria, Romania, and Hungary) have been either more erratic or have grown less rapidly. Practically all of Eastern Europe's exports to the industrial West are sold in Western Europe -- to West Germany, Italy, and the United Kingdom in particular. Poland has the most diversified exports geographically, including substantial sales to the United States.

62. Sales of agricultural commodities are Eastern Europe's greatest foreign exchange earner in the industrial West, followed by intermediate manufactures, machinery and equipment, and chemicals, in that order. Exports of agricultural products have declined as a share of the total, with the share of intermediate and finished manufactures increasing substantially. Exports of chemicals and machinery and equipment continue to represent a small share of total earnings -- one that has changed very little since the early 1960s. The Common Market absorbs the bulk of Eastern Europe's

agricultural exports, with exports of other product groups being more evenly distributed.

63. Poland, Romania, and Hungary annually account for at least two-thirds of East European exports of agricultural commodities to the industrial West. Poland and Romania, with substantial reserves of timber, coal, and other minerals easily salable in the West, have dominated sales of raw materials. Poland, Czechoslovakia, and East Germany are the principal exporters · ` chemicals, other intermediate manufactures, and consumer goods; and Czechoslovakia and East Germany account for most of Eastern Europe's machinery and equipment exports to the industrial West. There has been little change in the above relationships since the early 1960s, even though all of the countries have expanded and diversified their export product mix to some degree.

64. East European exports to the industrial West will increase through the mid-1970s but, as in the late 1960s, probably not as fast as intra-CEMA exports. Agricultural exports will continue to be Eastern Europe's major source of hard currency earnings, but they will decline in importance as the shares of exports of intermediate and consumer manufactures -- and to a lesser extent chemicals and machinery -- increase in relation to total exports. In the 1970s the East European countries will have to do more than continue to acquire Western machinery and equipment as they have done in the past few years, if they hope to keep pace with Western technological innovation and to gain appreciably on Western product quality. In particular, they must increase their rate of assimilation of the advanced technology embodied in Western imports, encourage domestic innovations in export products, and broaden their marketing know-how.